HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

CALGARY
SPRING 2003

New Home Market

Market Dynamics Not as Favourable

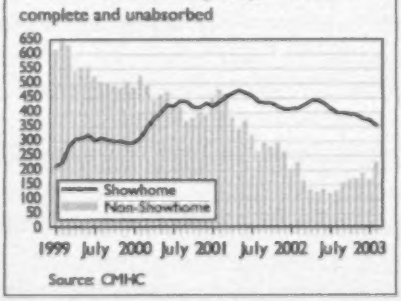
While Calgary's home building industry appears poised for another great year in 2003, the prospect of setting new records appears unlikely. In 2002, homebuilders in the Calgary Census Metropolitan Area (CMA) enjoyed a 26 per cent surge in activity over the previous year and the best performance since 1981. Total housing starts reached 14,339, fuelled by a record of 9,413 starts in the single-family market and the best year for multi-family construction since 1982. Indeed, the market had everything going for it last year. First and foremost, credit must be given to low mortgage rates, which have been among the lowest in almost 40 years. In 2002, the one-year mortgage rate averaged 5.2 per cent, 97 basis points lower than 2001. Combined with competitive mortgage markets offering up to 125 points off the posted rate, buyers enjoyed one of the best rate environments since 1965.

While low mortgage rates were the dominant factor fuelling markets in 2002, others added to the fire. Thanks to the lagged impact of employment growth on housing starts, the strong job gains in the second half of 2001 translated into increased demand last year. Demand was also boosted by an unexpected surge in migration, the second highest total since 1982. In addition, with price and mortgage rate increases on the horizon, a sense of urgency among buyers to buy sooner than later added to the mix. On the supply side, resale listings were 22 per cent lower than the previous year and the lowest since 1998. There was a lack of quality lower-priced listings that resulted in prospective buyers turning their attention directly to the new home market to meet their housing requirements.

In the first half of 2003, starts will remain strong thanks largely to a spillover of demand. Trade shortages have postponed possession dates significantly, while shortages of serviced lots have also pushed back construction. With builders failing to keep up with demand in 2002, the market in the first half of this year will benefit from the various stimuli experienced long ago. However, overall construction will curtail in the second half of the year as unmet demand becomes satisfied and other conditions shift out of favor. In fact, several factors already point to weaker activity in the second half of the year. Among these is a sharp drop in net migration, as a relatively soft labour market is reducing the magnetic draw into Calgary. In fact, at 14,900 new jobs, employment growth in 2002 was the weakest annual performance since 1994. This will translate into weaker housing demand this year, especially considering the quality of jobs created in 2002 was relatively poor, both in terms of average earnings and the proportion of full- versus part-time positions. Other factors tempering demand include rising mortgage rates, higher prices, and additional selection in the competing resale and rental markets.

In 2002, low mortgage rates provided welcomed relief for new homebuyers who continued to face price increases due to cost pressures from material, land and labour. This year, however, with rates and prices moving in the same upward direction, mortgage rates will no longer act as the enabling factor, taking a bite out of affordability. Interestingly, anticipated increases have thus far provided added stimulus for the new housing market as buyers scramble to take advantage of low borrowing costs before rates and prices rise further. In all likelihood, however, this impact has resulted in premature buying in past months that would otherwise occur later in 2003.

New Single-family Inventory
Modest Recovery in 'Spec' Units



Source: CMHC

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Other factors limiting demand include additional competition from Calgary's resale and rental markets. Through the first few months of the year, active listings in Calgary's resale market have averaged 34 per cent higher than the corresponding period in 2002, offering prospective buyers more alternatives to a new home. Similarly, rental vacancies are currently much easier to find, as low mortgage rates have resulted in an exodus of renters into homeownership. In the longer term, the easing of vacancies combined with modest rent increases, rental incentives, and higher mortgage rates will soften home ownership demand from first-time buyers.

While the above factors will soften single-family demand in 2003, starts will remain buoyant by historical standards. Following record 9,413 units in 2002, Calgary's single-family homebu ers will start work on 8,250 homes this year. While this represents a 12 per cent decline from 2002, it will be the fourth best total on record and will exceed the previous 10-year average by 20 per cent. Meanwhile, multiple-unit construction, including semi-detached, row, and apartment units, is expected to total 4,200 units this year, down 15 per cent from the 20-year high of 4,926 units in 2002. Despite the decline, this year's multi-family construction will surpass the previous 10-year average by a healthy 47 per cent.

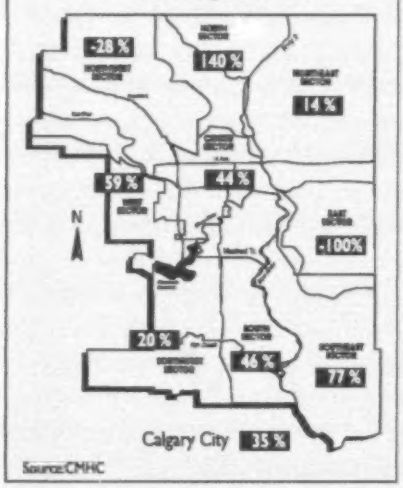
Strong First Half at Expense of Second

On the heels of a record performance in 2002, single-family housing starts are off to a blistering pace so far this year. In fact, never in history has there been a stronger first quarter for new home construction. Single-family housing starts from January to March totaled 1,961 units, eight per cent more than the first quarter of 2002. However, market participants should not expect a new record by year-end. While the first half of the year will be characterized with strong activity, it unfortunately will come at the expense of the latter six months. Thanks to terrific demand, lack of skilled trades, and serviced lot shortages, the market is currently benefiting from demand spillover from the previous year. This should keep construction crews busy through the summer months until evidence of softer sales begin to impact the market. By year-end, expect 8,250 single-family homes to begin construction. Despite a 12 per cent drop from 2002, this year will be characterized by a return to sustainable activity rather than a marked slowdown in the market. We must remember that the marketplace is coming off a record 2002 whose performance eclipsed the previous year by a hefty 25 per cent.

To some extent, the decline may come as welcome news for both builders and buyers. With serviced land shortages, a lack of skilled trades, and low inventories, a strong and steady market rather than one operating beyond capacity will provide a welcome breather for builders in 2003. For buyers, a modest slowdown in the market will reduce the lengthened possession dates, an issue that plagued the market through 2002 and the start of this year. That said, the decision among builders to stretch out possessions was a prudent one, as they elected to postpone possessions in favor of maintaining quality.

Despite the decline in activity this year, Calgary should maintain its status as producing the highest single-family starts per capita among all CMAs in Canada. In 2002, Calgary retained its 2001 ranking as a leader in the country, tying Oshawa with 9.5 starts per 1,000 people. If the various forecasts across the country hold true, the Calgary CMA will maintain its standing as the nation's leader in single-family starts per capita for yet another year.

Single-detached Starts
Annual % Change 2002/2001

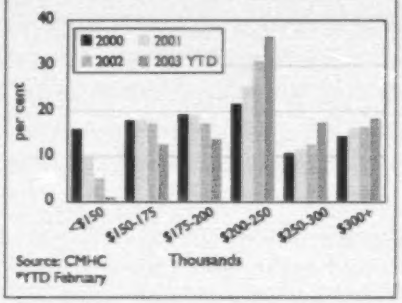


Source:CMHC

Opportunity to Replenish Inventories

With the continued strength of single-family starts, the number of units under construction has spiked to record levels. At the end of February, units under construction reached 4,098 units, 35 per cent higher than the previous year and the highest total on record. Due to the following factors, however, the risk of an inventory build-up typically associated with construction spikes is non-existent. Demand continues to be robust, with absorptions to the end of February 12 per cent higher than the previous year. Additional gains are expected in the coming months, as the vast majority of units under construction are already spoken for. Meanwhile, spec (non-showhome) inventories remain low by historical standards, despite a modest increase in recent months.

Single Absorptions by Price Range
Dwellings Below $150k Now the Exception



Source: CMHC
*YTD February

Spec inventories reached a five-year low of 121 units in July of last year, a time when builders would have benefited from additional units for immediate occupancy. While over 50 units have been added to this total in recent months, it may come too late for builders to enjoy the full benefit, as resale inventories are currently 34 per cent higher than the previous year. Nonetheless, spec inventories remain low by historical standards, especially when we consider that the market is producing over 9,000 units per year. In the preceding five years, the percentage of spec units in inventory averaged five per cent of annual starts. In 2003, the corresponding percentage has fallen to two per cent, indicating a clear shortage of spec units in inventory. Thankfully, once construction crews catch up to demand, builders will be able to replenish their spec inventories for immediate occupancy.

Prices Rise as Builders Face Cost Pressures

Following a six per cent gain in 2001 to $239,437, average prices increased by a modest 1.2 per cent last year, the lowest annual gain since 1996. However, rather than a weakness in the market, the lack of price growth represented a shift in the market toward more affordable units. Prospective buyers of expensive homes were more cautious in 2002 due to such factors as the poor stock market performance. Downsizing through oil and gas mergers also hit buyers hard. Meanwhile, the shortage of quality inexpensive resale listings combined with low mortgage rates created more 'entry-level' demand in the market. As a result, a window of opportunity was opened, as more product was needed to satisfy entry-level demand. Indeed, single-family builders responded, confirmed by the share of homes sold in the lower price ranges. In 2001, 27 per cent of all single-family homes were absorbed below $175,000. By 2002, that share fell only to 23 per cent, a notable feat considering there was extensive upward price pressure on land, labour, and materials throughout the year.

In 2003, builders will have a more difficult time keeping price growth at a minimum.

With the pace of construction continuing at record levels, every input into the production process will face further cost pressures. With energy costs escalating, various oil and gas byproducts in the production process will add to the cost of a home, such as asphalt shingles, concrete, and PVC pipe. Meanwhile, though the impact on housing of the Kyoto Accord is still largely unknown, expect consumers to be increasingly conscious of energy saving inputs, especially considering the Province is not providing natural gas rebates as they did a few years ago. Prudent buyers will likely turn more of their attention and upgrade dollars to energy saving products such as more efficient furnaces, insulation, windows, and doors. Indeed, this will add to construction costs, though it may be somewhat balanced by falling lumber prices which are down sharply from their March 2002 peak.

Another concern for builders continues to be a lack of skilled labour. With a record number of units under construction, trades continue to be pushed to their limit and have commanded higher wages as a result. Increases were awarded to a large number of trades and staff before the end of 2002. While this may make it difficult to command additional increases throughout 2003, it will nonetheless translate into more expensive homes during the year.

Rising material and labour costs are not the only factors adding to the cost of a new home. Due to poor weather and stronger than expected demand, developers were caught off-guard with an insufficient supply of serviced lots last year. Though decent weather in early winter provided an opportunity for developers to bring on more inventory, there still remains a shortage of serviced lots, especially at the lower end of the market. This will place continued upward pressure on lot prices, as will the proposed lot levies to fund roads and transit to new communities, if they take effect in the future. While the amount of the levies is yet to be determined, industry insiders are suggesting a few thousand dollars will be added per lot. In addition to these factors, pressure on lot prices via the production side will continue, as asphalt, concrete, fuel and other input costs rise in the face of heightened energy prices. All said, expect lot prices to increase by over six per cent this year, reaching an average of $67,000.

For overall housing costs, expect average house prices to increase by 4.6 per cent in 2003, reaching $253,600. While the increase pales in comparison to the seven and six per cent gains in 2000 and 2001, respectively, it far eclipses the modest 1.2 per cent gain in 2002. Though prices will continue to escalate in the single-family market this year, expect the price gap between resale and new to narrow further as price growth in the resale market surpasses that of new units. In 2003, the average new single-family home is expected to cost only $27,900 more than the average resale home sold through MLS. This compares favourably to the record $45,321 price gap in 2001.

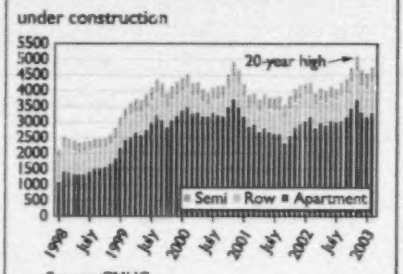
Indicators Point to Healthy Market

Following a 30 per cent surge last year, expect multi-family construction in 2003 to return to 2001 levels. After a 20-year high of 4,926 units in 2002, multi-family construction, including semi-detached, row, and apartment units, is expected to fall 15 per cent to 4,200 units this year. However, unlike 2001 when starts dropped 13 per cent in response to a buildup of inventories, the decline this year will not be attributed to such concerns. In fact, many multi-family conditions point to a healthy market.

After the first quarter of 2001, multi-family inventories spiked to their highest point in 20 years as absorptions failed to keep pace with completions. Though demand eventually soaked up the unabsorbed units, the situation was primarily to blame for a weaker performance in 2001. Two years later, however, the story differs considerably. At the start of 2003, multi-family inventories were at a 39-month low, thanks to strong absorptions pulling down the number of complete and unabsorbed units. Meanwhile, another crucial indicator has been in the healthiest position since 1998, namely the percentage of units absorbed at completion. It has consistently been above 80 per cent for each of the last 12 months, much more favorable than the 66 per cent ratio at the start of 2001.

Though perhaps moderating as we move forward, a culmination of factors will continue to fuel multi-family demand. Despite increases over the forecast horizon, mortgage rates will remain historically low, resulting in healthy, albeit reduced, demand for entry- to mid-priced condominiums. Considering higher mortgage rates may price some buyers out of the single-family market, many will continue to turn to multis to meet their homeownership needs. Meanwhile, despite increases in recent months, resale active listings remain low among the lower price ranges. This, coupled with an increasing difficulty to build a single-family home under $175,000, will result in steady demand from buyers seeking an affordable unit. Indeed, affordability remains paramount to the success of multi-family construction. So far this year, 48 per cent of all row and apartments condominiums were absorbed below $160,000. Nonetheless, that percentage is down from 57 per cent in 2002. With heightened land costs, labour pressures,

Multi-family Units Under Construction
Level near historical peak



Source: CMHC

material increases, and skyrocketing insurance premiums, it is becoming increasingly difficult to build an inexpensive unit.

While affordability constraints and rising competition via the resale and rental markets may cut into demand, lifestyle and location factors may pick up some of the slack (see below). However, one factor favoring the market last year will begin to weaken. Through 2002, volatile equity markets encouraged condominium investments as an alternative avenue for personal capital. This year, rising mortgage rates coupled with recovering stock markets will reduce the pool of investors purchasing a condo to rent. Additionally, the investment market is beginning to face heightened competition via existing rental vacancies. With homeownership costs favorable for higher-income renters, many have vacated their units adding competition for condo investors looking to rent their units. Ironically, while this may have fuelled the demand for condominiums in the past, it has also reduced the pool of high-end renters who may be on the market for an upper-end investor unit. If investors do not secure required rents, expect to see their units hitting the resale market providing even more competition for multi-family builders. Other competition may arise via increasing inventories, as the near record number of under construction will not all be absorbed upon completion.

Supply-Side Constraints in 2003

In addition to the factors listed above, the 15 per cent drop in construction in 2003 can be attributed to various supply-side constraints. The much-publicized East Village joint venture between the City of Calgary and private developers is now defunct, removing a number of units that were expected to begin construction this year. Meanwhile, construction activity has been slow on the land vacated by the old General Hospital, currently known as the Bow Valley Centre lands. Designed primarily for multi-family housing with some commercial opportunities,

1,575 units will be built in the area over the life cycle, making it the highest density neighborhood in the city. To date, however, work has only begun on roads and sidewalks, and sales of Phase 1 parcels to developers will likely not go before council until July 28th. As a result, it will be difficult to get any units in the ground before 2004 comes reality. Construction of actual housing units in the first phase of consisting of 425 units will likely not begin until early 2004.

Thankfully, the west end of downtown will fill some of the void left by the East Village and old General Hospital site developments this year, as no fewer than six towers representing 925 units are currently under construction. Meanwhile, the central sector of the city accounts for 42 per cent of the nearly 4,500 units worked on in the Calgary CMA. As a result, prospective buyers in the inner city have plenty of selection to choose from when making their purchase.

Resale Market

Following a Record 2002, Sales Will Slip Backward This Year

Mortgage rates among 40-year lows, a spike in migration, and 2001's healthy employment growth propelled Calgary's resale market last year to its best performance in history. These factors began to impact the market the second half of 2001 and carried strongly into 2002. The end result was a record of 25,054 resale transactions, eclipsing the previous record in 2001 by a healthy 11 per cent margin. New records were set for both single-family and condominium sales.

Unfortunately, the record pace of sales has not continued in 2003. At 3,465 units, sales to the end of February were 16 per cent weaker than the corresponding period one year ago. By year-end, CMHC expects the year-over-year decline to be 12 per cent, representing 22,150 transactions for the year. Factors inhibiting sales through the balance of the year include rising mortgage rates, weaker net migration, and the lagged impact of weaker job gains in 2002. To a lesser extent, Calgary's resale market will also face additional competition via growing inventories in the new home market as well as heightened rental vacancies.

The good news for prospective buyers is that resale inventories are also increasing. After reaching a low of 3,025 units in December 2001, active listings through MLS were slow to recover throughout 2002. On average, active listings in 2002 were 22 per cent lower than the previous year. Given record demand at that time, the scarce listings translated into frantic buying and a corresponding jump in prices. In fact, industry insiders have suggested that up to 10 per cent of sales last year exceeded the list price. So far this year, active listings have taken a turn for the better. At the end of February, there were 4,787 single-family homes and condominiums listed through the Calgary Real Estate Board (CREB), 38 per cent more than the corresponding period one year earlier. With many of the record number of homes under construction reaching completion, owners moving to a new residence are starting to add their units to the pool of active listings. For others, many are listing their homes to test the market, hoping to take advantage of the strong price growth experienced over the last few years. Combined with modestly weaker demand, these factors will maintain a healthy selection of listings throughout the year. Thus, expect to see fewer multiple offers, fewer sales in excess of list price, and weaker price growth this year, all features characterizing the market in 2002.

Table 1

MLS® PRICE GROWTH BY SECTOR

Highest Selling Neighbourhoods 2002 January - December (% chg 2002/2001)

Sector	Neighbourhood	AVERAGE PRICE 2002	AVERAGE PRICE % chg 02/01	SALES 2002	SALES % chg 02/01
Northwest	Edgemont	$262,293	6.7	280	14.8
	Citadel	$218,916	9.6	260	3.6
North	Hidden Valley	$203,432	9.5	339	-6.1
	Coventry Hills	$183,763	9.2	307	10.4
Northeast	Martindale	$157,559	10.3	473	26.5
	Monterey Park	$196,075	12.3	253	17.1
West	Strathcona Park	$283,149	13.6	135	-2.2
	Richmond Hill	$269,662	9.3	104	2.0
Centre	West Hillhurst	$310,842	13.4	139	23.0
	Killarney/Glengarry	$241,569	24.1	119	9.2
East	Erin Woods	$150,407	8.6	187	23.8
	Penbrooke	$134,802	4.2	146	28.1
South	Sundance	$227,578	-1.4	188	-3.1
	Chapparal	$240,980	11.9	138	-2.1
Southeast	Mckenzie Lake	$245,819	4.6	422	5.2
	Riverbend	$193,308	5.7	195	-20.7
Southwest	Bridlewood	$188,682	8.1	245	43.3
	Somerset	$201,909	11.1	238	13.3

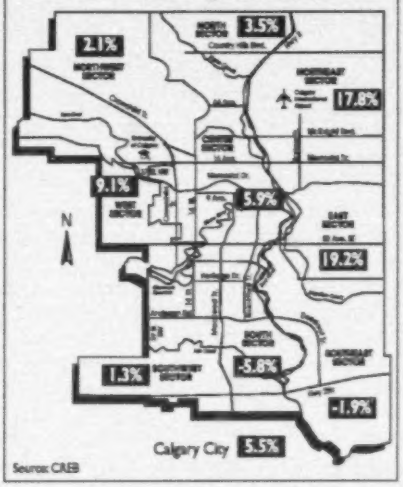
Source: CREB

Return to Balanced Market Conditions

As a gauge of resale activity, the sales-to-active listings ratio provides a good indication of the strength of the market. Notwithstanding other factors, a ratio in the range of 30 per cent is considered balanced where the market favors neither the buyer or seller. Throughout 2002, this indicator averaged 54 per cent, indicating a strong sellers' market. So far this year, the sales-to-active listings ratio has fallen, reaching 38 per cent in February 2003, one of the lowest ratios in the last 18 months.

While the market in general is moving toward a balanced position, the same cannot be said across price ranges. Intuitively, any increase in listings will be welcome news for buyers, especially first-timers who have been frantically competing for the few lower-priced listings. However, the market continues to be plagued with a shortage of lower-priced listings, especially among single-family units. Since the start of 2000, the percentage of single-family active listings under $175,000 has been falling dramatically. At the end of February, only 22 per cent of all single-family listings were priced below $175,000, considerably less than the 37 and 31 per cent shares in 2000 and 2001, respectively. With mortgage rates near 40-year lows and the prospect of additional rent increases, many first time-buyers snapped up any quality lower-priced

MLS® SALES BY SECTOR
Annual % Change 2002/2001



Source: CREB

units. For those looking to do the same this year, the task will become increasingly difficult. For those lucky enough to find a quality lower-priced unit, they will again face hurried decisions and stiff competition from other buyers. For others seeking an affordable unit, they may have to turn their attention to the condominium market to meet their housing needs.

Only in the upper price ranges does Calgary's resale market exhibit more balanced conditions between the buyer and seller. By price range, the single-family market shifts from sellers' to balanced conditions once prices exceed $275,000. For condominiums, the same holds true once prices have reached $200,000 or more. Indeed, the upper-end market is comparatively weak for a number of reasons. The recent woes in the stock market combined with layoffs and weak employment growth among higher-income sectors are likely to blame. While they have hurt demand, such factors are also resulting in increased listings in the upper end of the market.

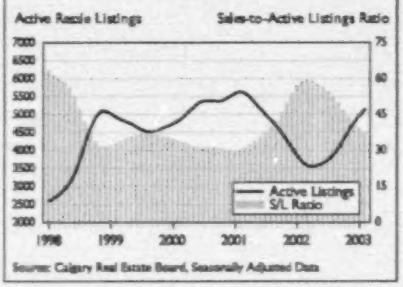
Weaker Price Growth Among Resales in 2003

The record pace of sales boosted prices considerably in last year. Following gains of 6.1 and 3.3 per cent in 2000 and 2001, respectively, average resale prices jumped nine per cent in 2002, reaching an average of $198,058. The nine per cent increase last year represents the strongest price growth since 1998, a year that reported a 10 per cent gain.

Prices surged in 2002 due to the persistent imbalance between supply and demand. A lack of quality listings, especially at the low end of the market, meant sellers often enjoyed competing offers from the numerous buyers ready to purchase their home. Meanwhile, for those experiencing difficulty finding a unit in their preferred price range, many had no choice but to upgrade to a more expensive residence. Luckily, low mortgage rates were the enabling factor, as the cheap borrowing costs allowed buyers to purchase a higher priced unit with minimal increase to their monthly payments. In addition, price growth was boosted by zealous pricing strategies. With a shortage of active listings throughout the year, sellers became increasingly aware that they held the upper hand. For some vendors, their price expectations were unrealistic and their listings were ignored. For most, however, their high price expectations were justified, confirmed by unusual brief selling durations throughout the year. In 2002, the average single-family home took 44 days to sell, 20 days fewer than in 2001. Condominiums, meanwhile, saw their average time to sell fall from 68 days in 2001 to 49 last year.

The story will be different in 2003. So far this year, all indicators support weaker price growth, including softer demand, higher active listing, and longer listings durations. Such factors will limit the number of multiple offers and sales in excess of list price, two key factors contributing to the hefty pace of price growth in 2002. With higher listings and weaker sales, expect price growth to moderate to six per cent, reaching $209,500. An upside risk appears in overzealous price expectations. Given the strong price growth last year, sellers testing the market will initially command inflated prices for their home. This should be short-lived, however, once they realize their overpriced homes will be sitting with little, if any, interest.

Resale Listings Recovering,
Sales-to-Active Listings Ratio Down



Source: Calgary Real Estate Board, Seasonally Adjusted Data

For more information, contact:

Richard Corriveau

Senior Market Analyst

Telephone : (403) 515-3005
Fax: (403) 515-3036
E-mail: rcorrive@cmhc-schl.gc.ca

Spotlight on Affordability

Home ownership costs will head upward this year in the face of rising mortgage rates and higher house prices. In 2002, declining mortgage rates helped offset higher average house prices in both the new and existing home markets. This year, however, mortgage rates will be moving upward as the Bank of Canada eases some of the monetary stimulus to curb inflation. Combined with further price increases for new and existing homes, buyers will begin to face affordability constraints, in turn tempering overall demand.

Thanks to declining mortgage rates through the fourth quarter of 2002, the average income required to purchase a single-family home increased by seven per cent, almost one full percentage point lower than the eight per cent hike in average prices. At $1,598 per month, the average monthly mortgage payment (payment, interest, taxes) in 2002 increased by seven per cent as well; also lower than the gain in average prices. In 2003, however, the tables will turn as mortgage rates no longer cushion the impact of rising prices. Despite comparatively weaker price growth of six per cent in 2003, higher mortgage rates require the average household to earn 12 per cent more income to afford the average single-family home, with a similar increase expected in the monthly carrying costs (PIT). Such requirements will undoubtedly push some buyers out of the market, or at least force them to lower their expectations toward a less expensive home.

Table 2
Ownership Costs Jump as Rates and Prices Rise

	2001	2002	% Chg.	2003F	% Chg.
5-Year Mortgage Rate*	6.87%	6.80%		7.52%	
Purchase Price	$206,218	$222,454	7.9%	$235,632	5.9%
Required Gross Income	$58,183	$62,251	7.0%	$69,441	11.6%
Mo. Payment (P.I.T.)	$1,489	$1,598	7.3%	$1,789	12.0%

Source: CMHC, CREB, weighted average price (new and resale singles)
*Assume: 10% down payment, taxes at 1% of value, 4th quarter mortgage rate

Rental Market

Slight Rise in Vacancies in 2003

Following a 2.9 per cent vacancy rate in October 2002, CMHC expects apartment vacancies will ease slightly to 3.5 per cent in 2003. While a variety of factors point to an additional rise in vacancies over the forecast period, opposing factors are at play that will have a balancing effect. As a result, expect vacancies to remain near the balanced range of three per cent this year.

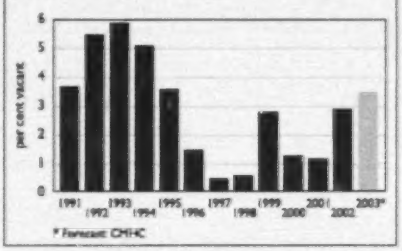
Among factors pointing to higher vacancies, low mortgage rates stand out as the most dominant. Mortgage rates among 40-year lows continue to deliver a stream of first-time buying activity. For the last 18 months, landlords have experienced an exodus of renters who have frantically been trying to get into home ownership before rates and prices increase further. Unfortunately, the full impact has yet to be seen as many renters headed for homeownership are awaiting the completion of their newly constructed units. With single-family units under construction at record highs and multis near a 20-year peak, expect to see renters vacating their units once many reach completion. Other factors pointing toward higher vacancies include weaker net migration and indirect additions to the rental stock via condominium investments to rent out. While damaging, however, these impacts will be comparatively minor for the following reasons. Despite the decline in newcomers to Calgary, migration among younger households will still add to rental demand, just at a lesser rate. Meanwhile, the impact of condominium investments will only impact the upper-end of the rental market, as they will command rents in the higher rent ranges.

While the above factors point to higher vacancies than our forecast, other factors will compensate to maintain a vacancy rate near 3.5 per cent. Rising house prices, increasing energy costs, and higher mortgage rates will begin to discourage renters to purchase a home in the second half of the year. To make their decision easier and to hedge the risk of higher vacancies, landlords are offering incentives to existing and potential tenants while displaying reluctance to raise rents. In addition, continued conversions will cause a further erosion of Calgary's rental stock, already among the lowest per capita among Canadian CMAs. During the 12-month period ending October 2002, 561 units were removed from the row and apartment rental stock through condominium conversions. During the same time, another 135 units were removed in favor of congregate care home. Despite this, Calgary builders are in no hurry to replenish rental stock. Out of 4,926 multi-family units started in 2002, only 295 were for rental tenure, or six per cent of all multi-family activity.

Unavoidable Yet Modest Rent Increases Expected

With vacancies reaching their highest point since 1994, the pace of rental rate increases is expected to subside. Following a 2.7 per cent increase in 2002 to $804 per month, tenants will see average two-bedroom rents rise by only two per cent during the 12-month period ending October 2003. With low mortgage rates resulting in an exodus of renters to homeownership, landlords will be increasingly reluctant to boost rents to hedge the risk of higher vacancies. Expect rent increases to be the weakest among the upper rent ranges, as vacancies are highest among the most expensive units. With new condo purchases by private and corporate investors to rent a healthy trend, there is much more competition among rental units in the upper rent ranges.

Chart 5
Vacancy Rates
Rental Apartment Structures Six Units and Over



While the risk of higher vacancies will keep average rent increases at a minimum, one factor will result in unavoidable gains. Heightened natural gas prices through 2002 and the start of 2003 will undoubtedly add to operating expenses. In most instances, property owners will attempt to recover such increases via rental rate hikes.

Mortgage Rate Outlook

A combination of a resilient Canadian economy with its rising capacity utilization, a stable/improving Canadian dollar, and rising inflation will lead the central bank to tap on the brakes by raising interest rates in the months ahead. As a result, mortgage rates are forecast to rise throughout the year, yet remain low by historical standards.

Short-term mortgage rates move in tandem with the prime rate while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond market. Spreads between mortgage rates and comparable bond yields have remained at the 200-250 bps in the last couple of years, providing lenders with some room to negotiate discounts ranging from 50 to 150 bps below the posted rates. These spreads are likely to persist in the short-term, maintaining a competitive mortgage market throughout the year.

In 2003, the one-year mortgage rate will average near 5.5 per cent compared to 5.2 per cent in the previous year. Five-year mortgage rates have started the year near 6.6 per cent, but will rise throughout 2003 reaching 7.5 per cent by the fourth quarter. Despite the increase throughout 2003, expect the five-year mortgage rate to average 7.01 per cent for the year, virtually on par with 2002.

Housing Now

Monthly HOUSING NOW CMA reports include topical analysis of economic and demographic developments affecting local housing markets and statistics for starts, completions, under construction, absorptions and supply by tenure. This concise report will give you a monthly analysis of the latest local data.

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Economic Overview

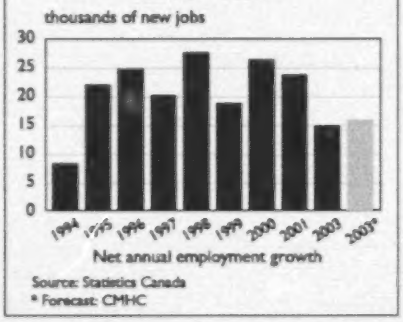
Slower Job Creation Will Catch Up to Housing Markets

In 2002, job creation in the Calgary CMA recorded the poorest performance since 1994. At 14,900 new positions, overall employment growth was 37 per cent weaker than 2001. Given the lag from job creation to housing sales, the poor job performance in 2002 will result in weaker new and resale demand this year. Thankfully, the majority of job creation was in full-time positions, an important prerequisite for buying a home. However, the bulk of job gains were also in the lower income-earning industries such as retail trade and construction, giving rise to weaker high-end demand and more conservative purchases throughout the year.

Thanks to a bullish consumer, the retail sector was the pillar of strength in Calgary's labour market last year. According to Statistics Canada figures, the retail sector led all industries in job creation in 2002 with 5,900 new jobs. Unfortunately for housing markets, this is the lowest paid sector in the Calgary economy, earning an average of $461 per week. Elsewhere, on the strength of housing starts and infrastructure spending, decent growth was experienced in the construction and utilities sectors. There, employment in 2002 rose by 2,300 and 3,600 positions, respectively. However, while the average utilities sector employee pulls in a healthy $1,051 per week, construction employment is among the lowest paid sectors at $734 per week.

In the first few months if 2003, job creation has been slow to recover from last year's poor performance. To the end of February, average year-over-year employment growth in the Calgary CMA stood at 4,100 new jobs, considerably less than the corresponding figure of 27,500 one year earlier. In fact, only two of the six months from September to February recorded positive monthly job gains, and they were far overshadowed by the losses in the other four months. Despite some strong fundamentals for improved job growth (see below), the war in Iraq and resulting uncertainties have prompted employers to take a conservative stance when expanding their payrolls. Evidence of this appears in Calgary's Help Wanted Index, which in February of 2003 was the lowest since October 1996.

Relatively Modest Employment Growth in 2003



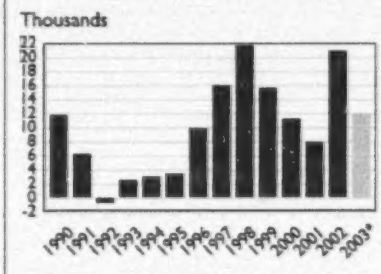
Source: Statistics Canada
* Forecast: CMHC

Due in part to persistently weak demand south of the border, the goods-producing sector has shed almost 6,000 jobs in the last 12 months. If the Iraqi war results in further weakness to the U.S. economy, it may result in weaker demand for our manufactured and other exports over the forecast period. Already a concern is the continued weakness in the high-technology sector, once argued to be the diversifying conduit for Calgary's energy-based economy. In late 2002, 500 jobs were eliminated at Solectron, followed by 75 at Panasonic, up to 1,000 at Telus, and further unspecified layoffs at Nortel. There is a bright spot for the future, however, as Shaw Communication's satellite unit will be hiring 250 additional people in its call centre following closures of a centre in Fredericton.

In the oil patch, the spate of mergers and acquisitions continues to take its toll on the Calgary economy. Following 300 job losses at EnCana Corporation in 2002, ConocoPhillips has axed 110 Calgary jobs after their restructuring, while BP Canada recently cut 50 jobs to reduce costs. Such fallout from the recent mergers and acquisitions is also causing a glut of downtown office space. Industry insiders claim that up to one-third of vacant space downtown is in the sublease market, primarily a result of this trend. In fact, most recent data show that downtown office vacancies have recorded their fifth straight quarterly increase. As a result, the prospect of new office tower construction over the forecast period is unlikely.

Despite recent concerns on the labour front, positive fundamentals exist that should contribute to employment growth of 16,000 jobs for the year. Oil prices climbed steadily through 2002 and reached a 12-year high of $39 U.S. per barrel in March 2003. This boosted the financial results of energy companies considerably over the last 12 months, a good indication that they will engage in new hiring through 2003. The spike in oil and natural gas prices has also resulted in a windfall of energy royalties to the provincial government. The provincial budget surplus at the start of the year was estimated to be $600 million, but thanks to the surge in oil and gas prices, the budget surplus has now ballooned to an estimated $1.8 billion. As a result, continued infrastructure spending in areas should continue to fuel the demand for construction labour. Two new high schools should go ahead, as should the new $200-million Alberta Children's Hospital on the U of C campus. Elsewhere, improvements to Calgary's Airport have become a common fixture in Calgary's construction industry, as has major work to our roadways, interchanges, and LRT lines. In total, upwards of $2.3 billion in non-residential projects will start or continue construction in 2003. Among these is the recent announcement of Rona Inc.'s massive $30 million, 326,000 square foot Western Canada distribution centre to be built in the South East.

Net Migration - City of Calgary



Source: City of Calgary (May 1 to April 30)
*Forecast: CMHC

Net Migration to Slow Following Huge Surge

After three consecutive years of decline, the City of Calgary experienced an unexpected but welcome spike in net migration in 2002. According to the latest city census figures, the City of Calgary recorded 20,962 new residents during the 12-month period ending April 30, 2002, up 162 per cent from 2001 and the second strongest gain since 1982.

For the 12-month period ending April 30, 2003, CMHC expects net migration to decline to 12,000. While our economy will continue to draw migrants, our magnetic power will be reduced due to a modestly higher unemployment rate and weaker employment gains through 2002 and 2003. Meanwhile, as economic conditions have improved in the rest of Canada, employment prospects outside of Alberta rapidly returned. The combination of tight labour markets and improved economies elsewhere will translate into reduced net migration into the Calgary region. Exacerbating this downturn will be the continued strength of the Edmonton market, where employment growth in 2002 matched Calgary's and appears poised for a solid 2003. As a result, Edmonton's strength will draw inter-provincial and inter-city migrants away from Calgary.

FORECAST SUMMARY

CALGARY HOUSING MARKET OUTLOOK

APRIL 2003

	2000	2001	% Chg	2002	% Chg	2003*	% Chg
RESALE MARKET							
MLS® [1] active listings (Annual Avg.)	5,214	5,021	-3.7%	3,902	-22.3%	4,800	23.0%
MLS® SALES							
Total	19,828	22,512	13.5%	25,054	11.3%	22,150	-11.6%
Single-family	15,541	17,616	13.4%	19,031	8.0%	16,750	-12.0%
Condominium	4,287	4,896	14.2%	6,023	23.0%	5,400	-10.3%
MLS® PRICE ($)							
Total	176,305	182,090	3.3%	198,058	8.8%	209,500	5.8%
Single-family	187,463	194,116	3.5%	212,844	9.6%	225,600	6.0%
Condominium	135,860	138,818	2.2%	151,337	9.0%	159,500	5.4%
NEW HOME MARKET							
STARTS							
Total	11,093	11,349	2.3%	14,339	26.3%	12,450	-13.2%
Single-family	6,749	7,559	12.0%	9,413	24.5%	8,250	-12.4%
Multiple-family	4,344	3,790	-12.8%	4,926	30.0%	4,200	-14.7%
AVERAGE NEW HOUSE PRICE							
Single-family	225,996	239,437	5.9%	242,386	1.2%	253,500	4.6%
RENTAL MARKET							
Vacancy rate (Oct)	1.3	1.2		2.9		3.5	
Rental rate (Annual % Change)	0.1	5.8		2.7		2.0	
ECONOMIC OVERVIEW							
Mortgage rate (3 yr term)	8.17	6.88	-1.3	6.28	-0.6	6.43	0.1
Mortgage rate (5 yr term)	8.35	7.41	-0.9	7.02	-0.4	7.01	0.0
Employed	543,400	567,200	4.4%	582,100	2.6%	598,100	2.7%
Employment growth (# jobs)	26,400	23,800		14,900		16,000	
Net-migration (Census Year [2])	11,317	7,991		20,962		12,000	

** CMHC Forecast*

Source: CMHC, Calgary Real Estate Board, Statistics Canada, City of Calgary

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

2 May 1 to April 31 period

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FORECAST SUMMARY

CALGARY HOUSING MARKET OUTLOOK

APRIL 2002

	1999	2000	% Chg	2001	% Chg	2002*	% Chg
RESALE MARKET							
MLS® SALES							
Total	20,197	19,828	-1.8%	22,512	13.5%	22,000	-2.3%
Single-family	16,072	15,541	-3.3%	17,616	13.4%	17,200	-2.4%
Condominium	4,125	4,287	3.9%	4,896	14.2%	4,800	-2.0%
MLS® PRICE ($)							
Total	166,110	176,305	6.1%	182,090	3.3%	191,200	5.0%
Single-family	175,512	187,463	6.8%	194,116	3.5%	204,000	5.1%
Condominium	129,477	135,860	4.9%	138,818	2.2%	145,300	4.7%
NEW HOME MARKET							
STARTS							
Total	10,600	11,093	4.7%	11,349	2.3%	11,500	1.3%
Single-family	6,613	6,749	2.1%	7,559	12.0%	7,800	3.2%
Multiple-family	3,987	4,344	9.0%	3,790	-12.8%	3,700	-2.4%
AVERAGE NEW HOUSE PRICE							
Single-family	211,230	225,996	7.0%	239,437	5.9%	253,800	6.0%
RENTAL MARKET							
Vacancy rate (Oct)	2.8	1.3		1.2		1.5	
Rental rate (Annual % Change)	4.5	0.1		5.8		4.0	
ECONOMIC OVERVIEW							
Mortgage rate (3 yr term)	7.37	8.17	0.8	6.88	-1.3	6.47	-0.4
Mortgage rate (5 yr term)	7.56	8.35	0.8	7.41	-0.9	7.23	-0.2
Employed	517,100	543,400	5.1%	567,200	4.4%	580,200	2.3%
Employment growth (# jobs)	18,800	26,400		23,800		13,000	
Net-migration (Census Year [2])	15,629	11,317		7,991		9,000	

** CMHC Forecast*

Source: CMHC, Calgary Real Estate Board, Statistics Canada, City of Calgary

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2 May 1 to April 31 period

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